

CLEVELAND PUBLIC LIBRARY
BUSINESS COLLECTIONS
CORPORATION FILE



PEPSI-COLA COMPANY
ANNUAL REPORT

1941



DON G. MITCHELL
Vice-President



GEORGE M. O'NEIL
Vice-President



WALTER S. MACK, JR.
President



TALBOT O. FREEMAN
Vice-President



J. WILLARD PIPES
Vice-President

THE 1941 ANNUAL REPORT
OF
THE PEPSI-COLA COMPANY

March 10, 1942

To the Stockholders:

The year 1941 was a year of further progress in the affairs of the Pepsi-Cola Company. It was also a year of continued improvement and expansion in distribution and sales, coupled with simplification of the financial structure of the Company. The capital stock of the Pepsi-Cola Company was listed on the New York Stock Exchange. Gains were made in more thorough coverage of the United States by franchise bottlers. In brief, 1941 was by far the most successful year your Company has so far had.

SALES

The sales of the Pepsi-Cola Company in 1941 continued to show a most satisfactory rate of increase. Sales of bottled goods in the United States for the year showed an increase over 1940 of approximately 63%. This compares with an increase of 42% in 1940 over the previous year. Sales in Canada showed an increase for the year over the previous year of 16% and sales in Central and South America showed an increase of 125%. Considerable thought and work is being given to the expansion of sales of Pepsi-Cola throughout South and Central America. The sale of Pepsi-Cola is being developed in a number of countries where it had never been sold before, and in those countries where it has recently been started special promotion work in cooperation with the local bottlers is being carried forward by the recently reorganized Export Department. The management looks forward to a substantial increase of this end of the business in the next few years. The Company ships a concentrate for export. This export business should therefore not be affected by curtailment of sugar in the United States.

FINANCIAL REVIEW

There is presented herewith a review of the operations of your Company and Subsidiaries for the year 1941, together with a Consolidated Balance Sheet at December 31, 1941, and a Summary of Consolidated Income and Statement of Surplus for the year then ended, certified by Haskins & Sells, independent certified public accountants.

OPERATING NET PROFIT

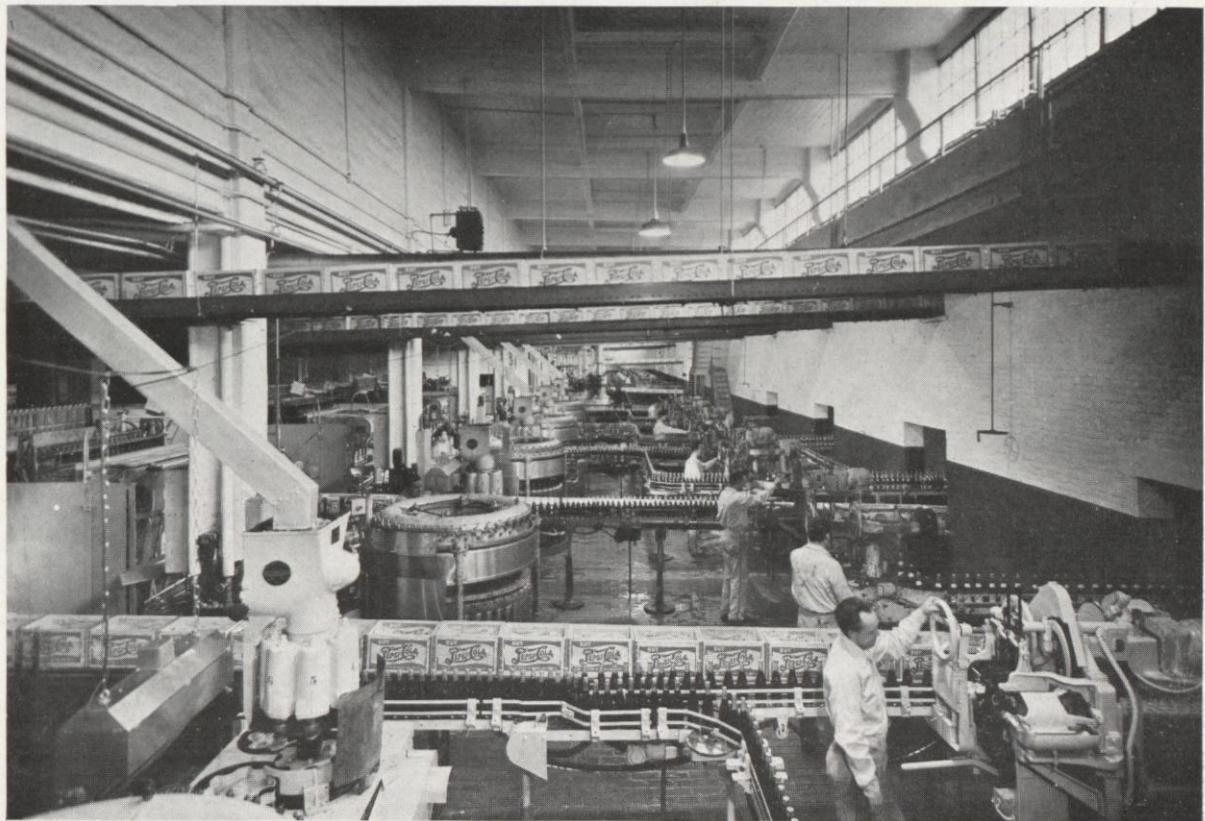
The Consolidated Operating Net Profit, after all Charges and Expenses but before deduction of United States and Canadian Income and Excess Profits Taxes, was \$14,908,224.10 compared with \$8,520,582.31 for the old company and its subsidiaries for the year 1940. These figures are not exactly comparable due to the fact that the present figures include some operating losses from real estate as result of the Merger which losses the old company did not have last year. However, on this basis this shows an increase of approximately 75% in operating net profit before United States and Canadian Income and Excess-Profits Taxes as compared with the previous year. A comparison of Net Operating Profit as above is a fairer means of comparison of the progress of the Company due to the fact that the taxes for 1941 were at higher rates than for the previous year. In addition, there were certain non-recurring losses as a result of the Merger which affected the provision for taxes for 1941 and the provision, therefore, is not comparable with 1940.

Below you will find the continuation of the table of comparison which we have published in recent annual reports of the operating net profit of the old Pepsi-Cola Company and its subsidiaries for the years 1936 through 1940 and for the present Pepsi-Cola Company and its subsidiaries for the year 1941. However, in the year, 1941, on account of the Merger, Loft operating losses not chargeable to the reserve have been deducted before arriving at the figure listed below. The very substantial increase in net profits in the year 1941 is due principally to the great increase in sales. The table below is based on net profits after deducting all charges and expenses but before deduction of United States and Canadian Income and Excess Profits Taxes.

1936.....	\$2,083,597.57
1937.....	3,224,625.72
1938.....	4,027,513.92
1939.....	5,952,602.39
1940.....	8,520,582.31
1941.....	14,908,224.10



An Early Pepsi-Cola Bottling Plant Over 35 Years Ago



A Modern Pepsi-Cola Plant To-day



Delivering Pepsi-Cola Many Years Ago



Delivering Pepsi-Cola To-day

NET INCOME AFTER ALL TAXES

After providing for all taxes, including Income and Excess Profits Taxes in the United States and Canada, the net income of your Company for the year 1941 was \$9,363,105.60, or approximately \$4.93 per share on the present outstanding Capital Stock. I want particularly to call attention to the provision for Federal Income and Excess Profits Taxes in the United States. Certain non-recurring Loft losses, aggregating approximately \$2,800,000, have been deducted before arriving at the taxable income. Such losses were charged on the books to reserves established for same in previous years and, therefore, did not affect the Operating Income. Therefore, no proper comparison with the previous year is possible.

COMPANY-OWNED PLANTS AND EQUIPMENT

The Company-owned plants and equipment have been further improved during the year 1941. Replacements and repairs have been kept well up to standard and additions have been made wherever found necessary so that the physical properties of the Company are in good shape. Some of the more important improvements which have been made in plants and equipment are as follows:

(a) The property adjoining the concentrate plant in Long Island City, N. Y., has been purchased and a new building erected which will be in operation within the next sixty days. This new building contains about 85,000 square feet of floor space and has 16 loading platforms for trucks. This was found necessary in order to take care of the increased demand for concentrate for our bottlers. It is a most modernly equipped and efficient concentrate plant and should take care of the growth of the Company for some years to come.

(b) The bottling plant at Philadelphia, Pa., has been moved to a larger building and new and larger equipment installed which should take care of the expansion in the Philadelphia operation for some years to come. Dallas, Texas, became a company operation and new bottling equipment has also recently been installed to serve that territory.

FRANCHISE BOTTLERS

The number of franchise bottlers in the United States on December 31, 1941, was 469. This compares with 415 on December 31, 1940. However, this numerical increase of 54 does not begin to show the improvement which has been made by the franchise bottlers in their operations. Many new plants have been built by franchise bottlers. Others have increased their machinery, equipment and facilities, and there is scarcely a franchise bottler of Pepsi-Cola in the United States

who has not made some improvements in equipment, trucks and manufacturing facilities during the year. The Company's Service Department has continued to guide and coordinate these expanding activities of the bottlers.

SUPPLIES AND RAW MATERIALS

During this difficult period in the affairs of the country, the stockholders are particularly interested in the question of raw materials and supplies for the Company for the period ahead. In general we wish to advise the stockholders that the various ingredients and supplies are well provided for.

SUGAR

The management of your Company built up a substantial inventory of raw sugar, sufficient to last for approximately two years, which it purchased when there was an over supply of sugar. However, due to the war, the U. S. Government felt there was a shortage of sugar at this time, and requested your Company to allow it to acquire part of this sugar reserve. Therefore, since January 1, 1942 a total of approximately 40,000 tons of raw sugar has been sold to the Defense Supplies Corporation, which is being delivered at the present time. This leaves the Company, it is estimated, sufficient sugar for its needs for approximately a year. After that time it has received the permission of the Department of Agriculture to receive as a refiner its regular quota of raw sugar which is allotted to all refiners. Under this arrangement your Company should be able to operate thereafter on the same basis as all refiners in the United States.

As the stockholders undoubtedly have seen in news reports, all manufacturers who use sugar in the United States have been put on a basis where they can only use during the months of February and March, 1942, 80% of the sugar which they used in the same months of the previous year, 1941. Although it would appear that our franchised bottlers in the United States would be thus restricted to the use of 80% of the sugar they used during these months in 1941, in their Pepsi-Cola business, many of them have advised us that they have eliminated some of their miscellaneous flavor beverages and other products which they formerly manufactured containing sugar, and are utilizing this sugar allotment in the bottling of additional Pepsi-Cola. The effect of this change on their part should result in some additional sugar being available for them to manufacture Pepsi-Cola. In addition, all Pepsi-Cola that is sold to Army and Navy personnel on Government Reservations, directly to War and Navy departments, Red Cross, Maritime Commission and ship operators is without any sugar restrictions.

LOOKING AHEAD

The growth of your Company during these war years may not be as rapid, perhaps, as the management would like, due to curtailment as above-mentioned of

some of the raw materials necessary for its business, but the period should not be wasted. It should afford the management and the franchise bottlers an opportunity to entrench their business which has grown very rapidly in the last few years, and consolidate the gains. This period should be utilized by the bottlers to put their business in better shape so that they may be ready to continue their march forward after the war in the growth and progress of the Pepsi-Cola Company and its family of bottlers.

Your Company and its bottlers will pay large taxes during this war period. The Company and its stockholders can derive a large measure of satisfaction from the knowledge that the operations of your Company have not only brought about a wide distribution of Pepsi-Cola which, along with other soft drinks, has been designated as a food product by the United States and British Governments, but will as well provide substantial taxes to pay for many planes, tanks, guns and other war materials. It is thus reassuring to know that your Company and its bottlers are not only producing a useful food product for the Nation but contributing to the expenses of the war in a large way during this period.

When the war is won Pepsi-Cola Company should be in a position, without having to change from wartime equipment back to peacetime machinery to immediately accelerate its program of service and distribution of Pepsi-Cola throughout the world.

By order of the Board of Directors.

WALTER S. MACK, JR.,
President

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK

ACCOUNTANTS' CERTIFICATE

PEPSI-COLA COMPANY:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its subsidiaries (other than the British subsidiary) as of December 31, 1941 and the related summary of consolidated income and statement of consolidated surplus for the year ended that date, have reviewed the accounting procedures of the companies (other than the Canadian subsidiary), and have examined or tested the accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control. As to the Canadian subsidiary, we have examined a report of chartered accountants, and the figures included in the accompanying statements with respect to this subsidiary are derived from such report. The total assets of this subsidiary amount to approximately 9% of the consolidated total, and its gross profit on sales and net income for the year were approximately 6% and 5%, respectively, of the consolidated totals. The accounts of the British subsidiary have been examined by us for the year 1941, but have not been included in the consolidated statements as explained in Note B to the consolidated balance sheet.

In our opinion, which as to the Canadian subsidiary is based upon a report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summary of consolidated income and statement of consolidated surplus, with the footnotes thereon, fairly present the financial condition of the companies at December 31, 1941 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the accounting policy with respect to certain losses from real estate leases as explained in Note 2 to the income statement, which change, in our opinion, was proper.

HASKINS & SELLS.

New York,
March 10, 1942.

PEPSI-COLA COMPANY AND SUBSIDIARIES

(Other Than The British Subsidiary)

**SUMMARY OF CONSOLIDATED INCOME
FOR THE YEAR ENDED DECEMBER 31, 1941**

GROSS PROFIT ON SALES	\$26,014,271.43
ADVERTISING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	11,010,499.91
 PROFIT FROM OPERATIONS	 \$15,003,771.52
OTHER INCOME	102,889.55
 GROSS INCOME	 \$15,106,661.07
 OTHER CHARGES:	
Net loss in connection with real estate leases (see Note 2)	\$ 186,823.80
Miscellaneous other charges	11,613.17
	198,436.97
 NET INCOME BEFORE DEDUCTING PROVISIONS FOR INCOME TAXES	 \$14,908,224.10
 PROVISIONS FOR INCOME TAXES—Estimated:	
United States normal income taxes	\$2,649,200.00
United States excess profits taxes	2,463,200.00
Canadian income and excess profits taxes and other income taxes	432,718.50
	5,545,118.50
 NET INCOME	 \$ 9,363,105.60

NOTES:

1. As of June 30, 1941, the old Pepsi-Cola Company was merged with the Company (formerly Loft Incorporated). In connection with the reorganization begun in 1939, the candy and restaurant business was disposed of and since the merger the activity has consisted almost entirely of the business of the old Pepsi-Cola Company. The above statement includes the operations of the old Pepsi-Cola Company to the date of merger, and shows therefore the results of operations of the combined companies for the year ended December 31, 1941. In considering this statement, it should be noted that in estimating Federal income and excess profits taxes certain non-recurring losses in 1941 aggregating approximately \$2,800,000.00 have been deducted in arriving at taxable income. Such losses were charged on the books to reserves established therefor in prior years.
2. The net loss in connection with real estate leases represents rentals and expenses paid in excess of rentals collected from sub-tenants for the period from January 1 to June 30, 1941. As a part of a plan of readjustment, the Company created as of July 31, 1939 a general reserve which, among other things, was intended to provide for such losses from real estate leases, and after the merger as of June 30, 1941 (which was the final step in such plan of readjustment) these losses, amounting to \$135,380.33, have been charged to the reserve thus provided.
3. The income and expenses of the Canadian subsidiary (net income of \$452,736.57) have been converted into U. S. dollars at the Canadian official rate of exchange prevailing during the year and those of the Cuban subsidiary (net income of \$2,092.55) at the average rate of exchange, except as to provision for depreciation which has been converted for both subsidiaries at rates prevailing at time of acquisition of the related assets.
4. The provision for depreciation charged to manufacturing and other expense accounts for the year 1941 amounted to \$362,169.21.

PEPSI-COLA
 (Incorporated)
 AND SUBSIDIARIES

(Other Than The Following)

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash on hand and demand deposits	\$2,740,041.64
Notes and accounts receivable:	
Notes receivable	\$ 182,208.69
Accounts receivable:	
Customers	205,314.65
Other	79,700.47
Total	\$ 467,223.81
Less reserve for doubtful receivables	87,878.47
	<hr/>
Marketable securities—at cost (quoted market value, \$73,646.00)	72,993.16
Inventories—see Note A:	
Finished and in-process	\$1,048,339.16
Raw materials and supplies	8,385,334.47
	<hr/>
Total current assets	\$12,626,053.77

INVESTMENTS AND MISCELLANEOUS ASSETS:

U. S. Treasury notes—at cost (deposited in escrow as collateral to contracts payable under lease settlements)	\$ 113,871.08
Investment in and advances to wholly-owned British subsidiary (less reserve)—see Note B	119,763.46
Notes and accounts receivable—not current	\$ 202,261.08
Less reserve for doubtful receivables	15,000.00
	<hr/>
Real estate mortgage receivable	398,000.00
Real estate (mortgaged as collateral under mortgage payable in the amount of \$180,000.00)	400,000.00
Other	44,808.98
	<hr/>
Total investments and miscellaneous assets	1,263,704.60

PROPERTY, PLANT, AND EQUIPMENT:

Land, buildings, and equipment—at cost (less reserve for depreciation, \$1,139,159.06)	\$5,406,030.23
Bottles and cases on hand and with trade (valued generally below cost at amounts determined by officials of the companies)	1,047,258.35
	<hr/>
Total property, plant, and equipment (net)	6,453,288.58

TRADE-MARKS, FORMULAS AND GOODWILL (at nominal value)

1.00

DEFERRED DEBIT ITEMS:

Prepaid insurance and taxes	\$ 460,175.98
Advertising materials and expenses, etc.	280,629.92
Other	122,000.81
	<hr/>
Total deferred debit items	862,806.71
	<hr/>
TOTAL	\$21,205,854.66

COMPANY
in Delaware)
IDIARIES

British Subsidiary)

HEET, DECEMBER 31, 1941

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued	\$1,288,691.20
Accrued taxes—estimated:	
United States and Canadian income and excess profits taxes	\$5,756,136.79
Less United States Treasury tax notes	1,001,600.00
	<hr/>
Other taxes	554,316.72
Portion of payments chargeable to general reserve estimated to be payable within one year (see below)	335,000.00
Settlement and service contract payable	26,500.01
	<hr/>
Total current liabilities (exclusive of customers' deposits on bottles and cases as stated in next item below)	\$ 6,959,044.72

CUSTOMERS' DEPOSITS ON BOTTLES AND CASES	454,326.20
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DEFERRED LIABILITIES:

Settlement and service contract payable, less portion payable within one year shown as a current liability	\$ 185,500.00
Contracts payable under lease settlements (U. S. Treasury notes deposited in escrow as collateral)	112,500.00
Mortgage payable, due 1946	180,000.00
	<hr/>
Total deferred liabilities	478,000.00

GENERAL RESERVE (for contingent liabilities existing at July 31, 1939, for rentals on leases in excess of fair rental values as of that date, and for losses on settlement of such leases) —(less \$335,000.00 estimated to be payable within one year shown as a current liability)— see Note C	1,532,208.95
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MINORITY INTEREST IN A SUBSIDIARY CONSOLIDATED (equity in capital stock \$395,475.00, less portion of deficit \$347,571.45)	47,903.55
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CAPITAL STOCK AND SURPLUS:

Capital stock—Authorized 2,500,000 shares of \$1.00 each; issued and outstanding, including fractional shares, 1,898,570.2 shares	\$1,898,570.20
Capital surplus	3,836,534.55
Earned surplus (since August 1, 1939)	5,999,266.49
	<hr/>
Total capital stock and surplus	11,734,371.24

The notes on the next pages following are an integral part of the above statement.

TOTAL \$21,205,854.66

PEPSI-COLA COMPANY AND SUBSIDIARIES

(Other Than The British Subsidiary)

NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1941

A. The inventories are stated on the basis of average cost which at December 31, 1941 was not in excess of market. In accordance with the accounting procedures followed by the companies, raw materials and supplies are charged to manufacturing and other expenses on the basis of average purchase cost (and cost of goods sold is computed on the basis of the average manufacturing costs) without recognition in the income account of any market declines since such declines are ordinarily without effect upon the stabilized sales prices of their products. Where any such market declines are of material amount, however, it is the practice to provide a reserve therefor out of surplus for the purpose of conservative treatment in the balance sheet.

B. Foreign subsidiaries:

The assets and liabilities of the Canadian and Cuban subsidiaries are included in the consolidated balance sheet on the following basis: The current assets and liabilities of the Canadian subsidiary have been converted into U. S. dollars at the Canadian official rate of exchange, and those of the Cuban subsidiary at the current rate of exchange, at December 31, 1941; their other assets and liabilities have been included at amounts which reflect their U. S. dollar equivalent at the time of acquisition or origin.

The current assets and the current liabilities of the Canadian subsidiary, included in the consolidated totals, amount to \$1,257,511.85 and \$584,127.22, respectively; its total assets and total liabilities amount to \$1,949,268.11 and \$584,127.22, respectively. The assets of this subsidiary are subject to the presently prevailing exchange restrictions.

The current assets and the current liabilities of the Cuban subsidiary, included in the consolidated totals, amount to \$66,139.90 and \$1,219.19, respectively; its total assets and total liabilities amount to \$273,333.17 and \$6,958.13, respectively.

The assets and liabilities of the British subsidiary have not been included in the consolidated balance sheet inasmuch as conditions prevailing in Europe make it impossible to estimate what the ultimate effect will be upon the property and business interests of this subsidiary. The investment in and advances to this subsidiary, \$119,763.46 (after deducting the reserve), represent approximately the net equity in this subsidiary as of December 31, 1940 converted into U. S. dollars on the same basis as used for the Canadian subsidiary. An increase in such net equity as a result of a profit during 1941 of approximately \$42,000.00 has not been reflected in the investment account for the same reason given above for not including this subsidiary in the consolidation.

C. In 1939 a general reserve in the amount of \$3,000,000.00 was provided for known and unknown contingent liabilities existing at July 31, 1939, for rentals on leases in excess of the approximate fair rental values as of that date of the premises covered by such leases, and for losses on settlement of such leases. As of July 31, 1940, based upon a review of the then known contingent liabilities and leasehold commitments, the Board of Directors increased said general reserve by a transfer thereto of \$1,489,831.90 from capital surplus.

Charges to the reserve from August 1, 1939 to December 31, 1941 amounted to \$2,622,622.95 (including \$112,500.00 in 1941 for contracts payable in future years under lease-settlement agreements consummated in 1941) as follows:

1939.....	\$ 642,750.00
1940.....	1,301,605.93
1941.....	678,267.02
Total.....	<u>\$2,622,622.95</u>

Prior to the merger as of June 30, 1941, rentals on leases and other current costs in connection therewith, less rentals collected from sub-tenants, were charged to operations, but after such merger these costs have been charged to the above reserve (see Note 2 to the income statement).

It is estimated that approximately \$335,000.00 of the balance of \$1,867,208.95 remaining in the reserve at December 31, 1941 may be applied within one year subsequent thereto, and therefore partakes of the nature of a current liability and has been so classified in the balance sheet.

Known contingent liabilities as of December 31, 1941 against which this general reserve has been provided, include the following undetermined matters:

- (a) The amount by which the rentals called for by leases in existence at July 31, 1939, or lump-payment settlements of certain such leases, will exceed the future income from subleases on the respective leased premises.
- (b) An undetermined amount of attorneys' fees and expenses in connection with the matters referred to in this Note C.

D. In addition to those mentioned under Note C, the companies have contingent liabilities as of December 31, 1941, as follows:

- (1) Contingent liability arising out of the use of its trade-mark in connection with the manufacture, sale and distribution of its product in the United States and foreign countries.
- (2) Pending litigation involving the use of the "Pepsi-Cola" trade-mark:
 - (a) A suit for an injunction and an accounting was brought by Coca-Cola Company of Canada, Limited, against Pepsi-Cola Company of Canada, Limited (a wholly-owned subsidiary of the Company), charging infringement of the alleged "Coca-Cola" trade-mark, in which a decision, on appeal, was rendered in favor of Pepsi-Cola Company of Canada, Limited, by the Supreme Court of Canada on December 9, 1939. The Coca-Cola Company of Canada, Limited, was granted leave to appeal to the Privy Council of the House of Lords, London and Pepsi-Cola Company of Canada, Limited was granted leave on its cross-appeal in December 1940. As of the date hereof, such appeals are still pending before Privy Council.
 - (b) The Company instituted a suit in the Supreme Court of the State of New York, County of Queens, against The Coca-Cola Company, seeking damages and injunctive relief restraining The Coca-Cola Company from engaging in certain alleged monopolistic and unfair business practices and activities. The Coca-Cola Company has filed an answer in this suit, consisting of a general denial and an affirmative defense and counterclaim in which The Coca-Cola Company charges that the trade-mark "Pepsi-Cola" infringes its mark "Coca-Cola", and unfair com-

petition, and seeks injunctive relief as well as an accounting by this Company for treble damages and profits. The Company has filed a reply to said counterclaim, consisting of a general denial and various affirmative defenses. The action is still pending undetermined in the Supreme Court of the State of New York, Queens County.

- (c) Litigations and registration proceedings involving the registration of the "Pepsi-Cola" trade-mark in various foreign countries.
- (3) Various other claims and litigations against Pepsi-Cola Company and its subsidiaries involving a total sum not in excess of \$50,000.00.
- (4) Claims against the Canadian and Cuban subsidiaries for additional taxes of approximately \$130,000.00.

The Company admits no liability in connection with the above contingent liabilities and no provision for loss in connection therewith has been made in the accompanying statements.

- E. In addition to the suits mentioned above, there was also pending litigation on behalf of Happiness Candy Stores, Inc. (a consolidated subsidiary 73.635% owned by the Company), seeking recovery in connection with the sale in January 1937 by Happiness Candy Stores, Inc. of 97,210 shares of Loft Incorporated at \$1.65 a share.
- F. Pursuant to an agreement of settlement dated June 6, 1939 (as subsequently modified), between the Company and its attorneys in the suit against Charles G. Guth, et al., the Company holds options to purchase 56,556.87 shares of its capital stock, as follows: 28,274.22 shares during the period of sixty days beginning July 7, 1942, and 28,282.65 shares during the sixty day period beginning July 7, 1943; all at a price of 85% of a figure arrived at by multiplying by twelve the consolidated net earnings per share of the Company, its subsidiaries and affiliates, and any merged and consolidated company, in accordance with standard accounting practices consistently applied, after depreciation and taxes, exclusive of all war-profits taxes, as more fully described in the agreement of merger dated April 28, 1941, approved at a special meeting of the Stockholders held on May 29, 1941. The Company did not exercise similar options for 28,274.22 shares which expired on September 5, 1941.

PEPSI-COLA COMPANY AND SUBSIDIARIES

(Other Than The British Subsidiary)

STATEMENT OF CONSOLIDATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1941

	<i>Earned Surplus</i>	<i>Capital Surplus</i>
BALANCE, JANUARY 1, 1941:		
Loft Incorporated (now Pepsi-Cola Company) and its subsidiaries (other than old Pepsi-Cola Company and its subsidiaries)	\$ 1,429,003.50	\$ 2,273,412.38
Old Pepsi-Cola Company and its subsidiaries (other than the British subsidiary)	8,673,824.95	502,248.49
Total	\$10,102,828.45	\$ 2,775,660.87
ADDITIONS TO SURPLUS:		
Net income for the year, per accompanying statement	9,363,105.60	
Recovery of a prior year dividend which was involved in litigation (net)	152,544.05	
Restoration to surplus of balance remaining in the special reserve of \$1,150,000.00 created at July 31, 1939 for write-down of fixed assets to liquidation values, after sale or other disposition of such assets at an aggregate book loss of \$775,219.77		374,780.23
Capital surplus arising in connection with merger as of June 30, 1941 of Loft Incorporated (now Pepsi-Cola Company) and old Pepsi-Cola Company (see Note 1)		686,093.45
Total	\$19,618,478.10	\$ 3,836,534.55
CHARGES TO SURPLUS:		
Adjustment in connection with merger as of June 30, 1941 (see Note 2)	\$ 7,373,085.62	
Write-down of trade-marks, formulas and goodwill to nominal value of \$1.00	1,499,999.00	
Dividends—\$2.50 a share (paid as follows: July 25, \$1.00; October 27, 50 cents; December 22, \$1.00)	4,746,126.99	
Total	\$13,619,211.61	
BALANCE, DECEMBER 31, 1941	\$ 5,999,266.49	\$ 3,836,534.55

The notes on the next page following are an integral part of the above statement.

PEPSI-COLA COMPANY AND SUBSIDIARIES

(Other Than The British Subsidiary)

NOTES TO STATEMENT OF CONSOLIDATED SURPLUS

1. The increase in capital surplus of \$686,093.45 in connection with the merger represents the following:

Equity of stockholders of old Pepsi-Cola Company (other than Loft Incorporated) in consolidated earned surplus of old Pepsi-Cola Company and subsidiaries at July 31, 1939 (date of Plan of Readjustment of the Company) less subsequent distributions therefrom up to date of merger.....	\$ 875,604.65
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Less:

Elimination of 11,700 shares of Loft Incorporated capital stock held by old Pepsi-Cola Company (excess of cost over par value thereof) \$ 11,700.00

Net increase in capital stock under merger agreement (issuance to stockholders of old Pepsi-Cola Company, other than Loft Incorporated, of 437,011.2 shares of stock of the Company with a par value of \$437,011.20 for 51,840 shares of stock of old Pepsi-Cola Company with a par value of \$259,200.00 held by such stockholders)	177,811.20	189,511.20
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Remainder (capital surplus arising in connection with merger)	\$ 686,093.45
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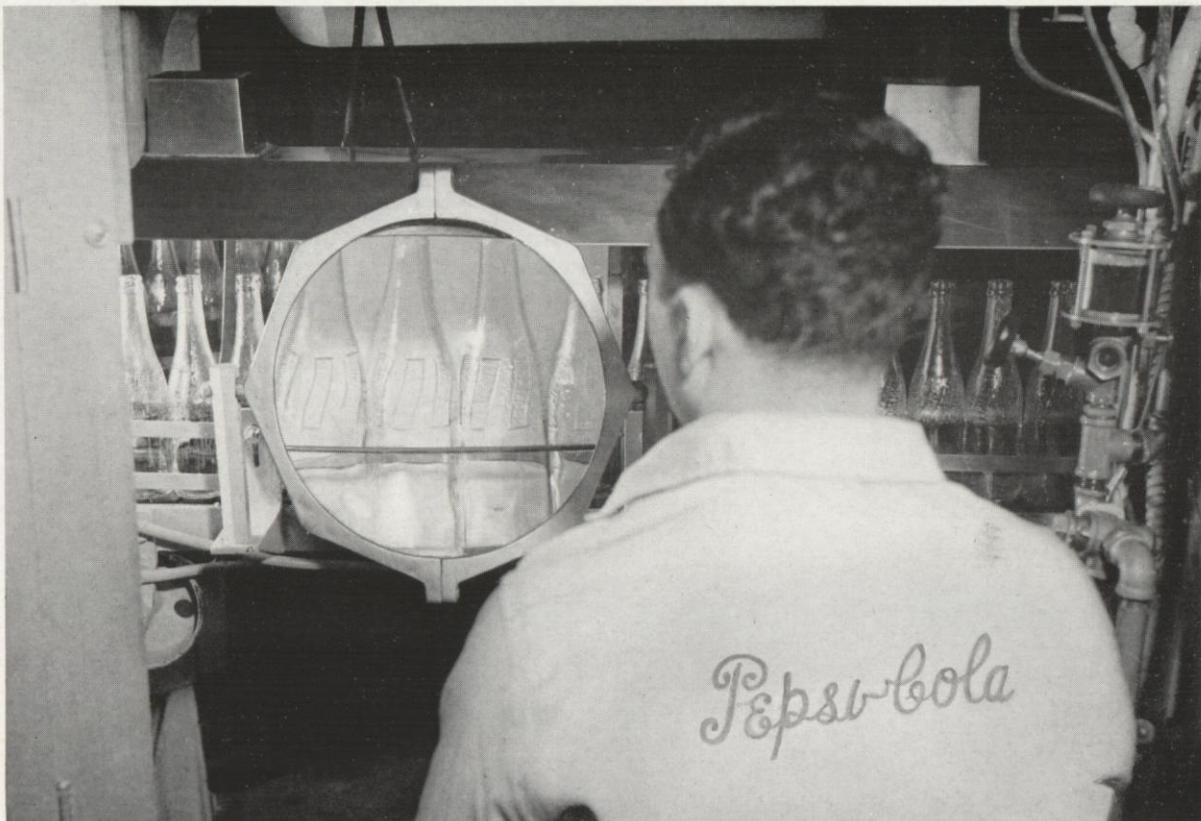
2. The adjustment of earned surplus in connection with the merger represents the following:

Elimination of Loft Incorporated's investment in capital stock of old Pepsi-Cola Company (excess of carrying value of investment over par value of the stock)	\$ 6,497,480.97
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Transfer to capital surplus as explained in Note 1 above	875,604.65
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Total	\$ 7,373,085.62
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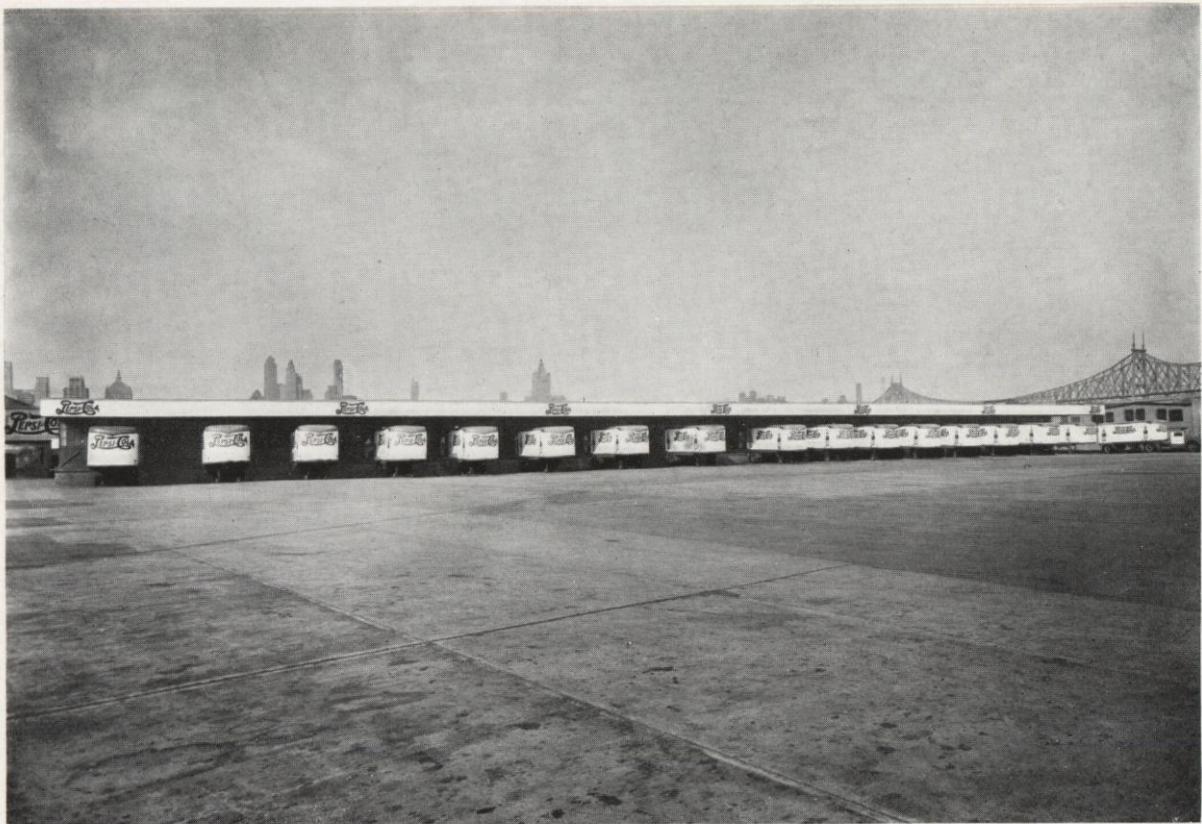
This adjustment in effect appropriately removes from the earned surplus account the earned surplus of the old Pepsi-Cola Company and its subsidiaries at July 31, 1939 (less subsequent distributions therefrom), at which date the deficit of Loft Incorporated was written off to capital surplus under the Plan of Readjustment. The amount in the earned surplus account after this adjustment represents earned surplus since August 1, 1939.



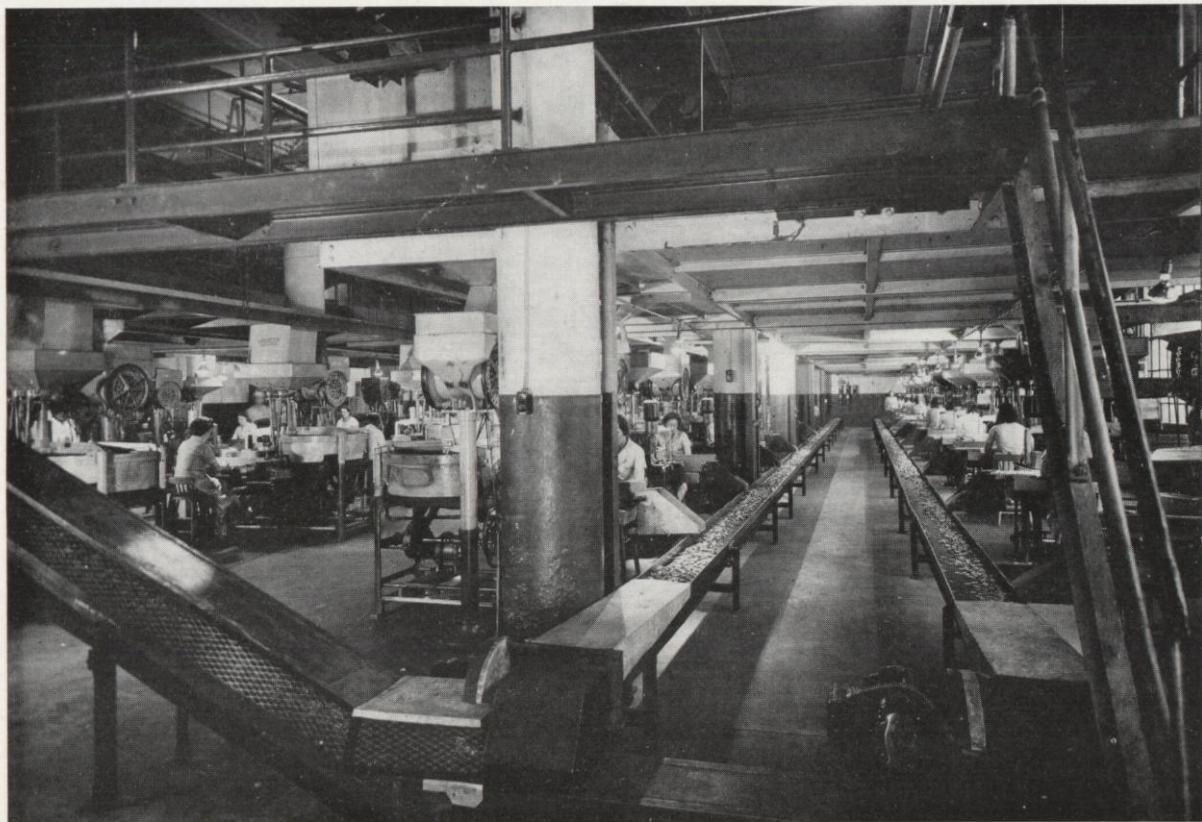
**Inspection of all bottles by magnification before filling
insures rigid standards of cleanliness.**



**Maintenance of highest standards by constantly testing
Pepsi-Cola and water from all plants.**



Pepsi-Cola Bottling Dept. Loading Platform



Pepsi-Cola Crown Manufacturing Department

DIRECTORS

JAMES W. CARKNER	WALTER S. MACK, JR.
WALTER W. COLPITTS	HERMAN SHULMAN
EDWARD A. LE ROY, JR.	HERBERT M. SINGER
HARRAL S. TENNEY	ARTHUR T. VANDERBILT

OFFICERS

WALTER S. MACK, JR.	<i>President</i>
DON G. MITCHELL	<i>Vice-President</i>
J. WILLARD PIPES	<i>Vice-President</i>
GEORGE M. O'NEIL	<i>Vice-President</i>
TALBOT O. FREEMAN	<i>Vice-President</i>
MILWARD W. MARTIN	<i>Secretary</i>
JOSEPH A. MURPHY	<i>Treasurer</i>
THOMAS E. O'CALLAGHAN	<i>Asst. Secretary</i>
G. EDWARD HARWOOD	<i>Asst. Treasurer</i>

AUDITORS

HASKINS & SELLS
Certified Public Accountants

TRANSFER AGENT

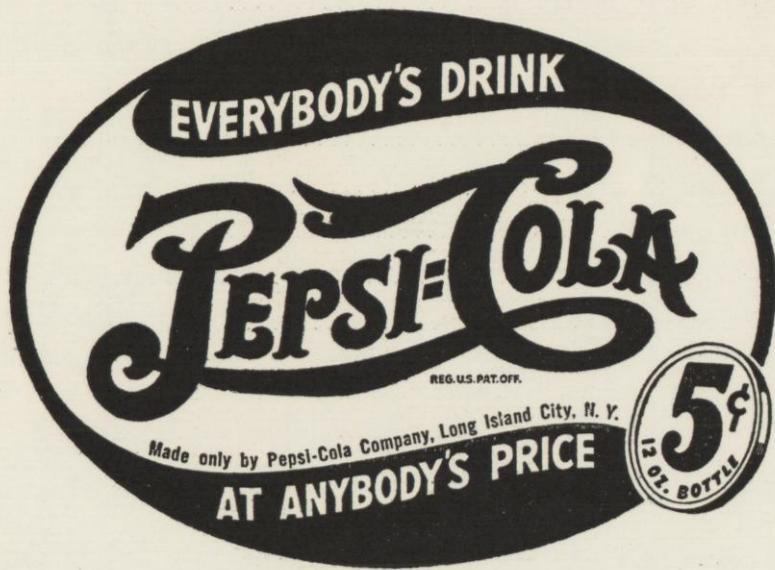
THE MARINE MIDLAND TRUST COMPANY OF NEW YORK
New York, N. Y.

REGISTRAR

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK
New York, N. Y.

GENERAL OFFICE

47-51 33rd Street, Long Island City, N. Y.





MILWARD W. MARTIN
Secretary



JOSEPH A. MURPHY
Treasurer



W. B. FORSYTHE
Manager Export Dept.



THOMAS E. O'CALLAGHAN
Asst. Secretary



G. EDWARD HARWOOD
Asst. Treasurer

